

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7106

BILL NUMBER: HB 1747

NOTE PREPARED: Feb 25, 2005

BILL AMENDED: Feb 24, 2005

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Budak

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Deferral:* This bill allows the deferral of any part of the property taxes that: (1) exceed a minimum required payment; and (2) are imposed on a homestead that is the principal place of residence of an individual who is at least 65 years of age, blind, or disabled (or the individual's surviving spouse) and who would otherwise qualify for a homestead credit.

Deduction: The bill also increases from \$25,000 to \$35,000 the adjusted gross income eligibility amount for the age 65 and older property tax deduction.

Effective Date: (Amended) March 1, 2005 (retroactive); Upon passage; July 1, 2005.

Explanation of State Expenditures: *Deferral:* Property Tax Replacement Credits and homestead credits would not be affected by this provision.

(Revised) *Deduction:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The tax shift from some elderly homeowners to all property (real and personal) would result in a net reduction of PTRC and homestead credit expenses estimated at \$230,000 in FY 2006 (partial year), and \$685,000 in FY 2007.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

Explanation of State Revenues: (Revised) *Deduction:* The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at \$5,000 in FY 2005 and \$10,000 each year thereafter.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Deferral:* Under this bill, homesteaders who are 65 years old, blind, or disabled may qualify to have a portion of their property tax bills deferred until the home is sold, transferred, or the owner no longer qualifies for the deferral.

Interest would accrue at the interest rate that the state charges for delinquent taxes (3% in 2005) on the part of a tax payment that is deferred, beginning five years after that deferral.

The amount of taxes deferred in a year, if any, would reduce the tax collections of the taxing units that serve the property. The reduction in collections would reduce revenue for local civil units and school corporations. Deferral payments would be treated as a miscellaneous revenue by the taxing units that receive them. As such, these payments would not count as property tax collections and would not have to be deposited into the levy excess fund if tax collections exceed 100% of the levy. These payments would increase revenue for the units.

Overall, at least initially, taxing units would have a reduction in revenue. If deferral payments are ever greater than deferrals in a future year, then revenues would increase in those years.

The bill would set the base year taxes for all homeowners and would allow deferrals for taxes that are above the base year threshold plus growth.

If a homeowner owned the home on March 1, 2002, then the threshold in a year would equal a combination of (1) 125% of the 2002 net tax amount plus (2) for each year after 2002, 10% of the tax amount or change in taxes from the previous year.

According to income tax return data for tax year 2002, approximately 308,000 taxpayers took an elderly or blind income tax deduction. These taxpayers took an income tax deduction for property taxes paid on homesteads in the amount of \$300 M.

From that data, total property taxes were estimated for this group of taxpayers in the amount of \$308 M in CY 2003, \$351 in CY 2004, \$358 in CY 2005, and \$391 M in CY 2006.

The actual fiscal impact of this provision is still being examined.

(Revised) *Deduction:* Under current law, beginning with taxes due in CY 2005, the property tax deduction for the elderly is equal to the lesser of \$12,480 assessed value (AV) or one-half of the AV of the home. This deduction was equal to \$6,000 AV for taxes payable in years prior to 2005. The deduction is available if (1) the homeowner is at least 65 years old, (2) the home's assessed value does not exceed \$144,000, and (3) the homeowner's income does not exceed \$25,000. This bill would raise the income cap to \$35,000.

Based on 2003 pay 2004 county abstract data received from 87 of 92 counties and abstract data for all counties from previous years, the statewide total of 2003 pay 2004 elderly deductions is estimated at \$680 M AV (at the \$6,000 deduction level). At the \$12,480 deduction level effective in 2005, the total elderly deduction is estimated at \$1.4 B AV under current law.

The change in the income cap from \$25,000 to \$35,000 would cause an estimated 31% increase in the number of homeowners that could qualify for the deduction. A 31% increase in the estimated deduction total would amount to about \$430 M AV.

Beginning with taxes paid in CY 2006, this provision would cause a shift of part of the property tax burden from elderly homeowners to all property owners in the form of a higher tax rate.

The net tax reduction for the additional elderly homeowners who would receive the deduction is estimated at about \$6.1 M in CY 2006 and \$6.3 M in CY 2007. Net taxes for all taxpayers (real and personal) would rise by about \$6.8 M in CY 2006 and \$6.9 M in CY 2007. The state's PTRC/homestead credit expense would decline by about \$700,000 in CY 2006 and \$675,000 in CY 2007. The increase in the average net tax rate is estimated at \$0.0021 per \$100 AV.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue.

Local Agencies Affected: County auditor; County treasurer; Local civil taxing units and school corporations.

Information Sources: County auditor abstracts; Local Government Database; Income Tax Return Data.

Fiscal Analyst: Bob Sigalow, 317-232-9859; Jim Landers, 317-232-9869.